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Report of the Special Committee on the Charter of the United Nations and on the Strengthening of the Role of the Organization

Implementation of the provisions of the Charter of the United Nations related to assistance to third States affected by the application of sanctions

Report of the Secretary-General

Addendum

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IV. Views provided by Governments and relevant international organizations regarding the report of the ad hoc expert group meeting and related issues of international assistance to third States affected by the application of sanctions

World Bank

1. The World Bank examined the report of the ad hoc expert group meeting on assistance to third States affected by the application of sanctions. It is the Bank's view that the report provides a useful conceptual framework for estimating the direct and indirect impact of sanctions on third-party States. At the same time, the Bank considers that individual country circumstances are important in terms of the weights given to these influences, as are the complex interactions between States and the spillover effects of sanctions on the regional economy. In general, the World Bank views that a rigorous focus on trade in goods and services and on potential ramifications for employment and particularly poverty reduction is critical.

2. The Bank is working extensively in the principal third-party States affected by sanctions to improve the underlying abilities of these economies to cope with external and other economic shocks. In turn, this will also contribute to mitigating the effects of sanctions on the regional economy. In addition to providing assistance for improving the competitiveness of domestic production structures, public sector reform and diversification of trade and export structures towards the global and larger regional economies, the World Bank would also welcome opportunities for consultation and maintaining constructive dialogue with third-party States on the effects of sanctions on individual countries and the regional economy. The Bank would also consider specific requests from its member countries in this regard.

3. More specifically, the World Bank provided information on some third-party States affected by the application of sanctions imposed on Iraq and the Federal Republic of Yugoslavia. In the Middle East and North Africa region, third-party effects of sanctions against Iraq on the economies of two countries, namely Jordan and Lebanon, included the loss of exports of goods and labour services, energy imports, fiscal revenues and employment. With relatively small domestic markets, concentrated export structures and rapid labour force growth, these economies have relied heavily on oil-exporting States such as Iraq and the larger regional market for exports of goods and labour services. The latter is particularly crucial in the case of the two countries, where remittances account for nearly 25 per cent of the gross domestic product (GDP) in Jordan and 20 per cent of GDP in Lebanon. Following the Gulf war and the imposition of sanctions on Iraq, disruption in the regional economy was particularly severe for Jordan, which experienced substantial losses in foreign exchange, increases in unemployment and loss of GDP. In Egypt, where lost employment opportunities as a result of the imposition of sanctions on Iraq have also been substantial, declines in remittances have had a potentially significant impact on rural poverty levels.

4. Both Jordan and Lebanon also rely heavily on the regional market for trade in goods, as demonstrated by the fact that dependency on the regional market is roughly 13 times higher than would be expected on the basis of exports to the global economy, intra-regional exports representing about 3 per cent of total exports for both countries. Despite special arrangements for the continued import by Jordan of oil from Iraq, the disruptive effect of the sanctions regime on regional energy balances is apparent. Given the underdeveloped tax structures characteristic of countries in the region, the fiscal impact of lost import duties is another consideration. For example, taxes on international trade are nearly 6 per cent of GDP in Jordan and represent an important source of fiscal revenues. In addition, weak transport links existing in the region tend to heighten the disruption caused by the sanctions. The predominance of intra-regional trade and the lack of well-integrated trade infrastructure suggest that the impact on third-party States of physical trade-route interruption may be significant, owing to the limited number of alternative transport routes.

5. During the period following the lifting of United Nations economic sanctions against the Federal Republic of Yugoslavia, almost all the countries of south-eastern Europe improved their external positions, with significant reductions attained in 1999 in current account deficits in Bosnia and Herzegovina, Croatia, Romania and the former Yugoslav Republic of Macedonia. However, even with continuing adjustment

efforts expected in most of these countries, official balance-of-payments financing needs including grants remain on the order of $2 billion for the region in 2000. Financing for all but $300 million of these needs has been previously identified, assuming the disbursement of sizeable assistance committed, but not used, in 1999, and $400 million in net purchases in 2000 under existing International Monetary Fund programmes. Nevertheless, there remains a case for higher official balance-of-payments financing to support stronger adjustment and reform programmes in the region.

6. The projections assume that, in the absence of an acceleration of regional projects, project financing by official creditors will amount to about $2 billion in 2000. However, while this would represent an increase over estimated 1999 levels, project lending would remain no higher than 1998 levels. In view of the high economic and social return to infrastructure spending in south-eastern Europe, there is a strong case for augmenting project lending on appropriate terms in 2000.

United Nations Development Programme

7. In the view of the United Nations Development Programme (UNDP) the report of the ad hoc expert group meeting on assistance to third States affected by the application of sanctions explains in a succinct and well-argued manner both direct and indirect consequences incurred by those countries as a result of preventive or enforcement measures. UNDP also finds the recommendations contained in the report to be comprehensive and useful. In addition, UNDP provided detailed information on its activities in the Balkan States affected by the application of sanctions imposed on the Federal Republic of Yugoslavia and, more generally, by the situation in the region. Main points of general and regional concern are summarized below.

8. Since the break-up of the Socialist Federal Republic of Yugoslavia, UNDP has provided support and assistance to the following countries affected by the developments in the Balkans, including by the effects of the Yugoslav sanctions regime: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Hungary, Romania and the former Yugoslav Republic of Macedonia. UNDP activities in those countries include support to post-humanitarian rehabilitation and socio-economic regeneration, as well as longer-term local and national capacity-building, promotion of good governance, democratization and economic reform, and development of productive facilities, including small and medium-size enterprises. While UNDP activities do not on the whole specifically address the effects of sanctions, they may have had some direct or indirect impact on mitigating their harsh social and economic consequences for the countries of the region. In some cases, such activities may also have contributed to the efforts of the affected countries to measure the impact of sanctions and develop policies to address the effects of sanctions on their economies.

9. In order to ensure a cohesive approach to the Balkans, UNDP has continued to support regional projects and activities in south-eastern Europe. For example, UNDP sponsored a report on human security in south-eastern Europe to provide a regional dimension to the various policy dialogues and options for decisions related to the post-conflict reconstruction of the region. In addition, UNDP supports a subregional Early Warning System for South-eastern Europe based on national early warning reports from all Balkan States which monitor key economic, social, political, ethnic and religious indicators, with a view to providing timely signals of forthcoming crises or emergencies. The analysis of these indicators can be used by Governments and international organizations to identify the potential for violent conflicts, develop strategic responses to emergencies and present policy options to key decision makers.